



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

November 9, 2009

Mr. Fred W. Klass, Chief Operating Officer  
Department of Finance  
State Capitol, Room 1145  
Sacramento, CA 95814

Dear Mr. Klass:

**Management Letter—American Recovery and Reinvestment Act of 2009 Data Review**

On behalf of the California Federal Economic Stimulus Task Force (Recovery Task Force), you requested the Office of State Audits and Evaluations (OSAE) conduct a review of the American Recovery and Reinvestment Act of 2009 (ARRA) data reported to the federal government for the first reporting period ending September 30, 2009. OSAE has completed its review, which included 12 departments. For each department selected, OSAE reviewed the available supporting documents to verify the (1) amount expended to date, (2) total recipient jobs created or retained, and (3) number of subrecipients.

**Background**

**Reporting of Federal Stimulus Funds**

Section 1512 of ARRA requires any recipient that receives recovery funds to submit reports on the use of the funds no later than ten days after the end of a quarter. Further, federal agencies are then required to make the reports publicly available no later than 30 days after the end of the quarter. On June 22, 2009, the Office of Management and Budget issued Memorandum M-09-21 which gave further guidance for carrying out the reporting requirements of Section 1512.

Prime recipients who receive ARRA funds through discretionary appropriations from the federal government are responsible for reporting Section 1512 information. Each project or activity funded through ARRA will require quarterly reports to be submitted. Memorandum M-09-21 provided a list of the data elements required to be included in the quarterly reports and stated that prime recipients have responsibility for the quality of the data submitted.

The first quarterly reports were due for submission to the federal government by October 10, 2009. From October 10 through 30, 2009, information compiled by the federal government from state governments and federal-direct Recovery Act award recipients will be audited and reviewed for transmission and other technical errors.

## **Methodology**

### **Sample Selection**

The Recovery Task Force provided OSAE with a spreadsheet titled State Government Entity Data as of September 30, 2009. OSAE used this spreadsheet to select our sample and verified the data reported on it. The departments were sorted in descending order based on their total amount expended to date for all their ARRA programs.

- The top ten departments with the largest amount expended to date were selected for review.
- For each department selected, if the department had multiple ARRA awards, the award having the largest amount expended to date was selected for review.
- Two additional departments that reported a small amount expended to date were also selected for review.
- An analytical review was performed for a few departments that reported zero dollars in expenditures, but reported jobs created or retained.

### **Procedures Performed**

The following procedures were performed to determine if the selected departments had adequate documentation to support the reported data:

#### *Amount Expended to Date*

- Traced and agreed expenditure amount reported to accounting records.
- Selected 20 percent of the amount expended for testing.
  - Supporting documents were reviewed to ensure the expenditure amounts were adequately supported and occurred during the reporting period.

#### *Total Recipient Jobs Created or Retained*

- Traced and agreed the number of jobs reported to supporting documents.
- Inquired about how the data was collected. If jobs created or retained were at the department level, the number reported was verified for accuracy.
- If applicable, determined if the department received and complied with more specific guidelines from their federal oversight agency for reporting jobs.
- Selected 10 percent or no more than 20 jobs for testing, whichever was less.
  - Supporting documents were reviewed to ensure the jobs were created or retained with ARRA funds.
  - Recalculated full-time equivalent position using the full time equivalent formula provided in Section 1512.

#### *Number of Subrecipients*

- Traced and agreed the number of subrecipients to supporting documents.
- Selected 10 percent or no more than 20 subrecipients for testing, whichever was less.
  - Reviewed the subrecipient contract to verify it was executed and included the required ARRA language.

In addition, we inquired if the department made any changes or additions to the reported data during the correction period. If applicable, supporting documents were reviewed to determine

the propriety of the department's changes or additions. Because the data reported is cumulative, the department can make corrections or adjustments in the upcoming reporting period.

This review is not considered an audit and is limited in scope. We did not evaluate documents received from the department to determine appropriateness of the expenditures. Our scope was to determine supporting documents exist and agree to the amounts reported to the Recovery Task Force. However, nothing came to our attention that led us to believe the information was unreliable or inappropriate. The review was performed October 13, 2009 through October 23, 2009.

## **Review Results**

*Exhibit A* summarized the review results for each department. In summary, we identified the following concerns related to the department's data:

### **Amount Expended to Date**

*Total amount expended may include actual and estimated expenditure amounts*—Depending on the accounting basis used by a department, the reported amount expended to date may also include encumbrances<sup>1</sup> for contracts and advances to subrecipients.

- The total amount of expenditures may not reflect actual expenditures. Once an encumbrance is liquidated (or spent) in the subsequent reporting period, departments need to ensure the amount is not captured as a duplicate expenditure.
- The department may not consistently use the same methodology for reporting total amount expended each reporting period.
- The cut-off date for each department's financial report was different; therefore, the reported amount expended may or may not include expenditures up to September 30, 2009.

### **Total Recipient Jobs Created or Retained**

Most of the jobs created or retained are at the subrecipient level and lower. Therefore, the number of jobs reported by the department is at the *discretion of the subrecipient*. Most departments rely on subrecipients to accurately calculate their number of jobs and do not verify the reported number for accuracy. Except for two awardees, our review did not include a review of documents and information submitted by subrecipients.

### **Number of Subrecipients**

One department did not report any subrecipients; however, based on our review it was determined the department should have reported 17 subrecipients.

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<sup>1</sup> Encumbrance signifies resources committed to a specific use and are no longer available for other expenditures.

**Additional Departments Reviewed**

Our review of the spreadsheet provided by the Recovery Task Force found some departments reported zero dollars in expenditures, but reported for jobs created or retained. We conducted inquiries with these departments and determined their explanations were reasonable (i.e., some departments had not received reimbursement requests and thus had not paid out any funds).

We appreciate the departments' assistance and cooperation during our review. If you have any questions, please contact Susan M. Botkin, Manager, or Jennifer Whitaker, Supervisor, at (916) 322-2985.

Sincerely,



David Botelho, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Cynthia Bryant, Director, California Recovery Task Force

**Exhibit A**  
**ARRA Data Review Results**

	Department	ARRA Program Name	Amount Expended to Date		Total Jobs Created/Retained		Number of Subrecipients		Comment
			Reported as of 10/10/09	Adequately supported	Reported as of 10/10/09	Adequately supported	Reported as of 10/10/09	Adequately supported	
1	California Governor's Office of Planning and Research (OPR)	State Fiscal Stabilization Fund—Education State Grants, Recovery	\$2,483,198,909	Y	18,878.0	P	1,511	Y	1, 2, 3, 4
2	California Department of Education (CDE)	Title I—Grants to LEAs, Recovery Act	450,284,592	Y	4,389.0	P	1,212	Y	5, 6, 7
3	California Employment Development Department (EDD)	WIA Dislocated Workers	89,542,677	P	22,307.1	P	58	Y	8, 9
4	California Department of Transportation (DOT)	Highway Infrastructure Investment	26,891,620	P	913.0	N	595	P	10, 11, 12
5	California Department of Developmental Services (DDS)	Special Education—Grants for Infants and Families, Recovery Act	16,076,364	P	0	N/A	0	N	13
6	California Department of Community Services and Development (CSD)	Weatherization Assistance for Low Income Persons	9,985,000	Y	81.1	P	40	Y	14, 15
7	California Water Resources Control Board (WRCB)	ARRA State Revolving Fund	9,757,457	Y	247.0	P	94	Y	16
8	California Victim Compensation and Government Claims Board (VCGCB)	Recovery Act—State Victim Compensation Formula Grant Program	8,110,055	Y	0	N/A	0	N/A	None
9	California Department of Rehabilitation (DOR)	Vocational Rehabilitation State Grants, Recovery Act	7,287,078	Y	13.3	Y	0	N/A	17
10	California Air Resources Board (ARB)	ARRA State Clean Diesel Grant Program	1,730,000	Y	18.7	P	5	Y	18, 19, 20
11	California Volunteers (CV)	Americorps Competitive Grants	25,528	Y	299.2	P	10	Y	21, 22
12	California Energy Commission (CEC)	State Energy Program (SEP)	11,735	Y	1.1	P	2	N	23, 24, 25
<b>Total</b>			<b>\$3,102,901,015</b>		<b>47,147.50</b>		<b>3,527</b>		



## Exhibit A ARRA Data Review Legend

### Tickmarks:

Y = Yes. Amount reported adequately supported.

P = Partial. Amount reported partially supported.

N = No. Amount reported not adequately supported.

N/A = Not Applicable. No amount reported.

### Comments:

#### OPR

1. The review of the State Fiscal Stabilization Fund does not include the amounts expended to date, total jobs created/retained, or the number of subrecipients reported for the University of California or the California State University. Only the amounts for the CDE were reviewed.
2. The OPR provided the full amount to the CDE. The total expended amount reported includes advances from the CDE to the county treasurers for disbursement to the Local Education Agencies (LEA). LEAs may not have expended the full amount. Per the CDE website, subrecipients self-reported \$571,240,555 as actual expenditures.
3. The number of jobs created or retained is based on the subrecipients' calculations and self reporting to CDE's online ARRA Reporting and Data Collection System. No data verification was performed by the department and the subrecipients did not submit supporting documents.
4. An additional 17 subrecipients were identified as not being reported due to invalid DUNS numbers. Subrecipients will be included in the next reporting cycle.

#### CDE

5. The total expended amount reported includes advances from the CDE to the county treasurers for disbursement to the Local Education Agencies (LEA). The LEAs may not have expended the full amount. Per the CDE website, subrecipients self-reported \$80,999,328 as actual expenditures.
6. The number of jobs created or retained is based on the subrecipients' calculations and self reporting to CDE's online ARRA Reporting and Data Collection System. No data verification was performed by the department and the subrecipients did not submit supporting documents.
7. An additional 13 subrecipients were identified as not being reported due to invalid DUNS numbers. The subrecipients will be included in the next reporting cycle.

#### EDD

8. The EDD's disbursement process is entirely automated. No supporting documents for subrecipient expenditures were available for review.
9. The number of jobs reported by the EDD is based solely on the subrecipients' calculations and self reporting. No data verification was performed by the department and the subrecipients did not submit supporting documents.

#### DOT

10. The total expended amount was updated in the CAAT system on October 19, 2009. The revised total expended amount is \$26,666,668; however, it did not agree to DOT's accounting system.
11. The recipient jobs created or retained was not supported by a valid calculation. Further, the DOT erroneously doubled some subrecipient job numbers.
12. The subrecipient total includes some subrecipients without fully executed contracts. Subrecipients are counted once the funds have been obligated.

**DDS**

13. DDS did not report 17 subrecipients as defined by OMB Memorandum M-09-21. DDS is currently reviewing requirements for subrecipients and will adjust if necessary in subsequent reporting periods.

**CSD**

14. The total expended amount equals the total amount of contracts encumbered by the department.
15. The number of jobs created or retained reported is based on the subrecipients' and vendor calculations and self reporting. No data verification was performed by the department and the subrecipients did not submit supporting documents.

**WRCB**

16. The number of jobs created or retained is based solely on the subrecipients' calculations and self reporting. Limited data verification was performed by the department and only some of the subrecipients submitted supporting documents.

**DOR**

17. The total expended amount includes both encumbrances and actual expenditures.

**ARB**

18. The total expended amount includes \$1,730,000 in advances to their subrecipients.
19. The ARB originally reported 18.7 jobs created or retained as of September 30, 2009; however, the ARB updated the jobs created or retained with the Recovery Task Force after our review began. The correct number of jobs created or retained is 16.61.
20. The subrecipients calculated jobs created or retained using grant administrative costs divided by a labor rate instead of using actual job positions.

**CV**

21. The CV did not use the "full-time equivalent" methodology provided in Section 1512 to calculate jobs created or retained.
22. Ten subrecipients have been awarded \$5,707,290 in grants and up to \$57,617 is being held at the state level for administrative costs.

**CEC**

23. The total expended amount did not include \$5,003 in payroll cost for an Office Technician (OT). This amount should be captured in the next reporting period.
24. The CEC incorrectly calculated the number of jobs created or retained by omitting the OT payroll costs mentioned in number 23. Subsequently, the CEC updated the CAAT system to reflect one job created or retained. The CEC will include the OT job created or retained in the next reporting period.
25. The CEC did not have executed contracts for the two subrecipients reported. Subsequently, the CEC updated the CAAT system to remove both subrecipients.